

EFFECTIVE RATE STRUCTURE WORKING GROUP

December 4, 2012

Attendees

- **Gordon Hess**
- **Bruce Rainey**
- **Glen Schmidt**
- **Keith Solar**
- **Amy Albanese**, Office of City Councilmember Sherri Lightner
- **Brent Eidson**, City of San Diego Public Utilities Dept.
- **Seth Gates**, Fiscal & Policy Analyst, Office of the Independent Budget Analyst
- **Lee Ann Jones-Santos**, Deputy Director of Public Utilities for Finance and Information Technology
- **Jeanne Cole**, Supervising Managing Analyst, Public Utilities
- **David Stallman**, Senior Management Analyst, Public Utilities
- **Ann Bui**, Black and Veatch (via telephone)

Objective:

To identify and evaluate options for a tiered rate or allocation pricing structure for single-family residential water customers that encourages conservation and discourages waste and supports the needs of private sector businesses and agriculture.

Background:

City of San Diego Ratepayers generally pay a flat fee of approximately \$20 per month, which covers certain administrative costs, such as meter reading, and some capital expenditure costs. In addition, ratepayers pay a commodity charge based on the amount of water actually used. The City water rate ordinance has three cost tiers: 1) from 1 to 7 hundred cubic feet (“hcf”) of water per month; 2) from 8 to 14 hcf per month; and 3) over 14 hcf per month. The difference in cost between the tiers is relatively flat. For example, the second tier of water costs ten percent (10%) more than the first tier, and the third tier of water costs ten percent (10%) more than the second tier.

The City currently has approximately 277,000 residential water service connections. Water consumption for most of these connections falls in tier two or tier three. However, even though most water consumption falls in the top two tiers, water use among single-family residential customers has declined from an average of 168.39 hcf in FY 2007 to 126.22 hcf in FY 2012, with most of the reduction coming after 2009. Currently it is not known whether the decline in water usage is due to a conservation awareness or to the overall state of the economy.

General Concept:

In general, the Working Group believes that thrifty water users should pay less for their water and wasteful water users should pay more, and that the City's rate structure should reflect this policy.

Recommendations:

1. To encourage conservation, the Working Group recommends that the City retain its tiered structure, but that there be a greater cost difference between tiers. For example, some water suppliers that use a three-tiered rate structure charge thirty percent (30%) more for tier two than tier one, and forty percent (40%) more for tier three than tier two.
2. Black and Veatch, a consulting firm, currently is performing a cost of service study for the City. The Working Group recommends that this study be used to determine how much the City should charge for each tier of water service. Black and Veatch cautions, however, that the difference between tiers should not be unduly punitive. An unduly punitive difference, according to Black and Veatch, would be tiers that are 10 or 15 times higher than the base rate.
3. The Working Group recommends that the City continue to move forward with its studies of a water-based budget for its approximately 4,400 irrigation-only accounts. Depending on the results of those studies, the Working Group recommends that the City include this concept when it next moves forward with a Proposition 218 notice seeking to increase rates.

Other Matters:

With respect to rate structure, the Working Group currently is discussing whether the City should:

1. Charge for its local supplies in tier one, and its imported supplies in tier two, which would help justify charging higher rates between the tiers;
2. Consider utilizing the differential between winter and summer costs of service to justify charging higher rates in the top tier;
3. Consider lowering its fixed monthly charge, increasing its tier one rate to compensate for the reduction in the monthly charge, and adopting steeper rates between all of its consumption tiers;
4. Adopt a water-based budget, with each single-family customer being allocated an amount of water based on the actual or an assumed number of people who reside indoors plus an amount of water based on the square footage of landscape;

5. Cease absorbing water rate increases imposed by regional wholesalers, as the failure to pass through cost increases masks the actual cost of water and may create the unrealistic expectation that water rates will continue to be low;
6. Consider implementing the Irvine Ranch Water District model of a property tax increase, which would be used to cover fixed charges and costs for capital improvements and which would result in monthly water bills reflecting only consumptive use, but which would require a city charter amendment or an annual general obligation bond; and
7. Complete a condition assessment survey to prioritize replacement of the City's 3,000 miles of water pipes, and consider adopting a rate increase to accelerate replacement. The City currently replaces approximately 20 miles of pipeline annually, at a cost of approximately \$1,000,000 per linear mile. The Public Utilities Department should be commended for doing this, as this exceeds recommended replacements. However, at this pace, the entire system will be replaced in 150 years. Since the pipelines have a useful life of 75 years, this means that 40 miles of pipe should be replaced annually so that the entire system is replaced prior to the expiration of its useful life.